



**Review of Dominion Energy South Carolina, Inc.'
Gas Rate Stabilization Act Monitoring Report for
the Period Ending March 31, 2020**

South Carolina
Office of Regulatory Staff

September 1, 2020

Introduction

On February 16, 2005, the Natural Gas Rate Stabilization Act (“RSA”), S.C. Code Ann. § 58-5-400, was signed into law. The South Carolina Office of Regulatory Staff (“ORS”), in accordance with the RSA, conducted an examination of Dominion Energy South Carolina, Inc.’s (“DESC” or “the Company”) Monitoring Report for the twelve-month period ended March 31, 2020 (“Review Period”). The examination was conducted for the purpose of determining the Company’s compliance with the provisions of the RSA.

Pursuant to the RSA, the Company must file Monitoring Reports with the Public Service Commission of South Carolina (“Commission”) and the ORS on or before the fifteenth of June. In Docket No. 2020-6-G, DESC filed its Monitoring Report with the Commission on June 15, 2020 (“Company’s Request”). The Company reported in its March 31, 2020 Monitoring Report an adjusted rate of return and return on common equity of 7.59% and 8.58%, respectively. The Company’s calculation of an increase in revenue requirements totaled \$8,630,682.

In accordance with the RSA, ORS’s audit reports are provided to the Commission, the Company, and made available to all interested parties no later than the first of September. ORS’s review of DESC’s Monitoring Report focused on the Company’s adherence to the RSA and applicable Commission Orders. This report details the results of ORS’s examination.

ORS appreciates the Company’s efforts to present its books and records in an accurate and transparent manner. DESC’s responses to ORS’s discovery and questions were timely. ORS emailed the Company the results of ORS’s examination on August 26, 2020.

RSA Rates History

In accordance with the guidelines of the RSA, the Company is entitled to an adjustment in rates to achieve a return on common equity as set by previous Commission Order, currently 10.25%. Table 1 shows the requested and approved changes granted for prior RSA filings and a comparison to the current filing.

Table 1:

Docket No.	Order No.	Amount Requested	ORS Proposed Revenue	Amount Granted	Approved Return on Equity	Rates Effective
2016-6-G	2016-704	\$4,386,695	\$4,086,147	\$4,086,147	10.25%	11/1/2016
2017-6-G	2017-623	\$9,022,098	\$8,633,538	\$8,633,538	10.25%	11/1/2017
2018-6-G	2018-678	(\$18,737,191)	(\$19,716,936)	(\$19,716,936)	10.25%	11/1/2018
2019-6-G	2019-729	\$7,106,649	\$6,273,054	\$6,273,054	10.25%	11/1/2019
2020-6-G	TBD	\$8,630,682	\$7,186,187	TBD	10.25%	11/1/2020

ORS Review

ORS examines the operating experience reported by the Company for the Review Period together with the associated revenue requirement calculations. The results of ORS's examination of the Monitoring Report and the underlying financial records through March 31, 2020, are contained in **Schedule 1**.

Schedule 1 presents the Company's operating experience, rate base and rates of return for the Review Period, and the accounting and pro forma adjustments that ORS has determined are necessary to normalize the Company's operations.

Utilizing the per book rate base of \$739,915,693 and income of \$57,089,491, a rate of return was calculated on per book operations of 7.72% with a corresponding return on common equity of 8.82%. ORS accounting and pro forma adjustments decreased net income for return to \$57,045,030 and decreased rate base to \$737,581,726. A rate of return of 7.73% and a return on common equity of 8.86% were computed by ORS. After the adjustments for the proposed margin increase of \$7,186,187, net income for return increased to \$62,502,736. The rate of return on rate base computed by ORS after the adjustments for the proposed increase is 8.47%. The return on common equity is 10.25%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS recommends for the Company's Monitoring Report to conform to S.C. Code Ann. § 58-5-

450. For comparative purposes, the adjustments of both the Company and ORS are presented on Schedule 2.

Schedule 3 presents the calculation of the weighted cost of capital used by ORS in calculating the Company's return on common equity both before and after ORS's adjustments for the proposed margin increase. The rate base, as shown on Schedule 1, is allocated between long-term debt and common equity using the Company's actual capital structure of 53.14% Common Equity and 46.86% Long-Term Debt for the Review Period. The adjusted amount of total income for return necessary to cover an embedded cost rate of 6.46% on long-term debt is computed to be \$22,327,749. The remainder of the total income for return of \$34,717,281 is income to common equity. This produced a return of 8.86% on common equity before the proposed increase. The overall cost of capital after accounting and pro forma adjustments, prior to the proposed increase, is 7.73%. The cost of capital after the proposed increase equals 8.47%.

Non-allowable Expenses

DESC proposed a total non-allowable adjustment of (\$60,413), comprised of (\$60,367) of operating and maintenance expenses-other and (\$46) of taxes other than income. In compliance with DESC policy, DESC records expenses the Company identifies as non-allowable and non-utility related "below-the-line." ORS's proposed non-allowable expense Adjustment #20 is (\$182,705), comprised of (\$182,659) of operating and maintenance expenses-other and (\$46) of taxes other than income. Below is a description of the categories of non-allowable expenses identified by ORS.

- Company Agrees – Expenses ORS selected for testing for which the Company agreed were non-allowable expenses.¹
- Development Grants and Sponsorships – Costs of sponsorships and grants to non-profit organizations that do not directly relate to the provision of safe and reliable gas operations or increase total system sales and customers.

Table 2 below provides a summary of the non-allowable expense adjustments made by ORS.

Table 2:

Category	Amount
DESC's Non-Allowable Expense Adjustment #20	(\$60,413)
Additional Adjustments Proposed by ORS:	
Company Agrees	(\$17,187)
Development Grants and Sponsorships	(\$105,105)

¹ DESC may not agree with the balance of ORS's proposed Adjustment #20.

ORS's Non-Allowable Expense Adjustment #20**(\$182,705)****Employee Incentive Pay and Executive Salary**

Order No. 2005-619 included an adjustment to reduce employee incentive pay. In prior Monitoring Reports, DESC included an adjustment to reduce employee incentive pay to remove fifty percent (50%) of bonuses accrued at one hundred percent (100%) of target and one hundred percent (100%) of bonuses accrued above one hundred percent (100%) of target. In the 2019 Monitoring Report filed by DESC, the Company did not include any adjustments to incentive compensation. In the 2020 Monitoring Report, DESC included an adjustment to remove one hundred percent (100%) of bonuses accrued above one hundred percent (100%) of target. ORS's Adjustment #13 to operating and maintenance expenses-other is (\$1,372,104), comprised of (\$1,343,908) of incentive pay and (\$28,196) of executives' salaries and benefits. Adjustment #13 also includes an adjustment to taxes other than income of (\$87,816) to remove the payroll taxes associated with the incentive pay and executives' salaries.

ORS recommends an adjustment of (\$1,343,908) to remove the portion of Long-Term Incentives and Short-Term Incentives for all employees allocated to South Carolina natural gas operations for the Company's Earnings Per Share ("EPS"), Return on Invested Capital ("ROIC"), and Total Shareholder Return ("TSR") goals. ORS's recommendation to exclude incentive compensation expenses associated with EPS, ROIC, and TSR is based on the following rationale: 1) payments for financial goals are not certain; 2) earnings can be influenced greatly by factors such as customer growth and higher authorized returns which are not directly attributed to the actions of Company employees; and 3) incentive payments to employees should be made using increased earnings not through customer rates.

ORS also recommends an adjustment of (\$28,196) to remove fifty percent (50%) of the base pay and benefits paid to the Company's four (4) highest compensated executives during the review period. These four (4) executives' job duties are solely focused on increasing value for the Company's shareholders and provide no discernable additional benefit to the Company's customers.

In addition, DESC capitalizes a portion of employee incentives and associated taxes for work related to plant-in-service. Commission Order No. 2019-729 required the Company to report to ORS the capitalized employee incentives and associated taxes for work related to plant-in-service. The Company complied with the Commission's Order by providing that information to ORS.

Capital Structure

S.C. Code Ann. § 58-5-440 contains requirements for the March Monitoring Report and states:

(1) if the utility's earnings exceed the upper end of the range established in the order, the utility shall calculate the reduction in revenue required to lower its return on equity to the midpoint of the range established in the order; or (2) if the utility's earnings are below the lower range established in the order, the utility shall calculate the additional revenue required to increase its return on equity to the midpoint of the range established in the order.

The range is 9.75% to 10.75% with a midpoint of 10.25% return on equity.

The Company included in the RSA filing the actual capital structure for the period ending March 31, 2020. This capital structure is comprised of 46.86% Long-Term Debt and 53.14% Common Equity. After reviewing the Company's balance sheet for this twelve-month period, ORS made no adjustment to DESC's capital structure for this period for purposes of the RSA.

In Order No. 2018-804, the Commission directed DESC to provide equity on an as-needed basis to maintain a capital structure for the Company that is comprised of between 50% and 55% common equity. ORS notes that, for this twelve-month period, the Company's equity ratio is within this range.

Excess Tax Collections

After the 2017 Tax Cuts and Jobs Act was passed into law, the Company's federal income tax rate decreased from 35% to 21%. From January 1, 2018 and continuing through October 31, 2018, the Company collected revenues from customers based on a 35% federal income tax rate. The Company refunded these through the Tax Reform Rate Rider ("decrement rider") approved by Order No. 2019-729 which will expire after the last billing cycle of October 2020. To the extent customers are over or under credited, the over or under credited amount will be placed in a deferred account with interest at the 3-year U.S. Government Treasury Notes, as reported by the Wall Street Journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points), to be recovered or returned in a future RSA proceeding. The tariffs proposed by the Company will no longer include the decrement rider.

Rate Design and Allocation of Additional Revenue

S.C. Code Ann. § 58-5-440 states, “[t]he proposed rate changes, filed by the utility, shall conform as nearly as is practicable with the revenue allocation principles contained in the most recent rate order.” ORS reviewed the Company’s proposed tariffs for conformance, as nearly as practicable, to the revenue allocation principles set out in the Company’s most recent rate order, which is Commission Order No. 2005-619 in Docket No. 2005-113-G. If the Commission approves the findings of ORS’s examination, the Company would then apply the change in revenue amount in proportion to the Company’s Request using the same criteria. ORS will verify the new rates generate the approved revenue change.

Revenue Verification

ORS verified that the approved rates for April 1, 2019 through March 31, 2020 reflect actual revenues generated during the Review Period. Additionally, ORS verified the proposed revised tariffs in Exhibit B of DESC’s proposed rate adjustments will generate a revenue increase of \$8,630,682. ORS’s review determined the retail revenue target increase is \$7,186,187 instead of \$8,630,682 as proposed by the Company (See Exhibit A of the Company’s Request). ORS reduced the Company’s Request by \$1,444,495 or 16.74%. The results of ORS’s examination are shown on Schedule 1.

Conclusions

ORS reviewed DESC’s Monitoring Report and conducted an examination of the Company’s books and records. The revenue increase for DESC totals \$7,186,187 when applying the provisions of the RSA, ORS’s recommended adjustments and prior Commission order.

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Schedule 1

Dominion Energy South Carolina, Inc., Docket No. 2020-6-G
Operating Experience - Total Gas
For the Twelve-Month Period Ended March 31, 2020

<u>Description</u>	<u>Per Regulatory Books</u>	<u>Accounting & Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Total Proposed Increase/ (Decrease)</u>	<u>Total After Proposed Increase/ (Decrease)</u>
<u>Operating Revenues</u>	\$ 393,112,545	\$ 6,913,143 (A)	\$ 400,025,688	\$ 7,186,187 (L)	\$ 407,211,875
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	197,160,941	0	197,160,941	0	197,160,941
O&M Expenses - Other	70,207,203	(867,460) (B)	69,339,743	0	69,339,743
Dep. & Amort. Expenses	33,914,742	1,575,922 (C)	35,490,664	0	35,490,664
Taxes Other Than Income	30,062,082	4,193,681 (D)	34,255,763	43,449 (M)	34,299,212
State Income Taxes	784,425	1,297,190 (E)	2,081,615	357,137 (N)	2,438,752
Federal Income Taxes	4,661,693	757,265 (F)	5,418,958	1,424,976 (O)	6,843,934
<u>Total Operating Expenses</u>	336,791,086	6,956,598	343,747,684	1,825,562	345,573,246
<u>Total Operating Income</u>	56,321,459	(43,455)	56,278,004	5,360,625	61,638,629
Customer Growth	1,020,201	(1,006) (G)	1,019,195	97,081 (P)	1,116,276
Interest on Customer Deposits	(252,169)	0	(252,169)	0	(252,169)
<u>Net Income for Return</u>	57,089,491	(44,461)	57,045,030	5,457,706	62,502,736
<u>Rate Base:</u>					
Gross Plant in Service	1,374,714,749	(701,137) (H)	1,374,013,612	0	1,374,013,612
Reserve for Depreciation	503,065,533	1,496,284 (I)	504,561,817	0	504,561,817
Net Plant in Service	871,649,216	(2,197,421)	869,451,795	0	869,451,795
Construction Work in Process	33,051,550	0	33,051,550	0	33,051,550
Accum. Deferred Income Taxes	(98,773,363)	0	(98,773,363)	0	(98,773,363)
Environmental Costs	9,632,417	0	9,632,417	0	9,632,417
Pension Deferral	5,269,043	0	5,269,043	0	5,269,043
OPEB's	(18,604,822)	(28,113) (J)	(18,632,935)	0	(18,632,935)
Tax Deferrals	(78,037,443)	0	(78,037,443)	0	(78,037,443)
Injuries & Damages	(489,194)	0	(489,194)	0	(489,194)
Materials & Supplies	20,645,937	0	20,645,937	0	20,645,937
Total Working Capital	8,775,900	(108,433) (K)	8,667,467	0	8,667,467
Prepayments	12,277,033	0	12,277,033	0	12,277,033
Average Tax Accruals	(14,980,605)	0	(14,980,605)	0	(14,980,605)
Customer Deposits	(10,499,976)	0	(10,499,976)	0	(10,499,976)
<u>Total Rate Base</u>	739,915,693	(2,333,967)	737,581,726	0	737,581,726
<u>Rate of Return</u>	7.72%		7.73%		8.47%
<u>Return on Equity</u>	8.82%		8.86%		10.25%

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Schedule 2
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Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
<u>Accounting & Pro Forma Adjustments</u>												
1	Annualize Wages, Benefits, and Payroll Taxes											
	Per Company		637,401		44,887	(34,114)	(136,117)					79,675
	Per ORS		637,401		44,887	(34,114)	(136,117)					79,675
2	Remove Employee Clubs											
	Per Company			(13,545)		677	2,702		(553,981)	(245,920)		
	Per ORS			(13,545)		677	2,702		(553,981)	(245,920)		
3	Annualize Depreciation based on Proposed Rates											
	Per Company			1,590,642		(79,532)	(317,333)			1,792,985		
	Per ORS			1,590,642		(79,532)	(317,333)			1,792,985		
4	Annualize Property Taxes											
	Per Company				4,205,788	(210,289)	(839,055)					
	Per ORS				4,205,788	(210,289)	(839,055)					
5	Annualize Health Care Expenses											
	Per Company		(761,389)			38,069	151,897					(95,174)
	Per ORS		(761,389)			38,069	151,897					(95,174)
6	Annualize Other Post-Employee Benefits (OPEB)											
	Per Company		37,459			(1,873)	(7,473)				(28,113)	4,682
	Per ORS		37,459			(1,873)	(7,473)				(28,113)	4,682
7	Annualize Insurance Expense											
	Per Company		2,573			(129)	(513)					322
	Per ORS		2,573			(129)	(513)					322
8	Tax Effect of Annualized Interest											
	Per Company					3,272	13,056					
	Per ORS					3,536	14,108					
9	Annualize Current Pension Expense											
	Per Company		(769,113)			38,456	153,438					(96,139)
	Per ORS		(769,113)			38,456	153,438					(96,139)
10	WNA Deferral Adjustment											
	Per Company	2,919,328			16,958	145,118	579,023					
	Per ORS	2,919,328			17,650	145,084	578,885					
11	Annualize RSA Revenue Increase (Order No. 2019-729)											
	Per Company	1,692,201			9,830	84,119	335,633					
	Per ORS	1,692,201			10,231	84,099	335,553					

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Schedule 2
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Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
12	Remove Lightsey Settlement Property Per Company Per ORS			(3,130) (3,130)		156 156	624 624		(147,156) (147,156)	(50,781) (50,781)		
13	Incentive Compensation Adjustment Per Company Per ORS		(186,205) (1,372,104)		(15,337) (87,816)	10,077 72,996	40,208 291,254					(23,276) (171,513)
14	Annualize Dominion Energy Services Allocations Per Company Per ORS		1,429,767 1,361,123	1,955 1,955	(10,988) (10,993)	(71,037) (67,604)	(283,436) (269,741)					178,721 170,140
15	Normalize Effective Income Tax Rate Per Company Per ORS					1,193,104 1,193,104	341,963 341,963					
16	Remove Timber Revenue Per Company Per ORS	(144,874) (144,874)			(842) (811)	(7,202) (7,203)	(28,734) (28,741)					
17	Tax Reform Rate Rider Revenue Adjustment Per Company Per ORS	2,273,292 2,273,292			13,206 13,744	113,004 112,977	450,887 450,780					
18	Annualize Fort Jackson Privatization Contract Revenue Per Company Per ORS	173,196 173,196			1,006 1,047	8,610 8,607	34,352 34,344					
19	Manufactured Gas Plant Expense Adjustment Per Company Per ORS		179,249 179,249			(8,962) (8,962)	(35,760) (35,760)					22,406 22,406
20	Remove Expenses for Ratemaking Per Company Per ORS		(60,367) (182,659)		(46) (46)	3,021 9,135	12,052 36,450					(7,546) (22,832)
21	Customer Growth Per Company Per ORS							- (1,006)				
Total Company Accounting & Pro Forma Adjustments		6,913,143	509,375	1,575,922	4,264,462	1,224,545	467,414	-	(701,137)	1,496,284	(28,113)	63,671
Total ORS Accounting & Pro Forma Adjustments		6,913,143	(867,460)	1,575,922	4,193,681	1,297,190	757,265	(1,006)	(701,137)	1,496,284	(28,113)	(108,433)
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Schedule 2
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Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
Total Proposed Increase/(Decrease)												
22	Adjust Revenue, Taxes & Customer Growth	8,630,682			50,136	429,027	1,711,819	116,645				
	Per Company	7,186,187			43,449	357,137	1,424,976	97,081				
	Per ORS											
Total Company Proposed Increase/(Decrease)		8,630,682	-	-	50,136	429,027	1,711,819	116,645	-	-	-	-
Total ORS Proposed Increase/(Decrease)		7,186,187	-	-	43,449	357,137	1,424,976	97,081	-	-	-	-
		(L)			(M)	(N)	(O)	(P)				

Dominion Energy South Carolina, Inc., Docket No. 2020-6-G
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2020

Description				Regulatory Per Books				As Adjusted				After Proposed Increase/(Decrease)			
	Capital Structure	Ratio		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 3,355,787,000	46.86%	\$	346,724,494	6.46%	3.03%	\$ 22,398,402	\$ 345,630,797	6.46%	3.03%	\$ 22,327,749	\$ 345,630,797	6.46%	3.03%	\$ 22,327,749
Preferred Stock	100,000														
Common Equity	3,806,056,154	53.14%		393,191,199	8.82%	4.69%	34,691,089	391,950,929	8.86%	4.70%	34,717,281	391,950,929	10.25%	5.44%	40,174,987
Totals	\$ 7,161,943,154	100.00%	\$	739,915,693		7.72%	\$ 57,089,491	\$ 737,581,726		7.73%	\$ 57,045,030	\$ 737,581,726		8.47%	\$ 62,502,736